consolidated building corporation limited

CBC

annual report 1967

consolidated building corporation limited

99 AVENUE ROAD, TORONTO, CANADA

Directors

John D. Fienberg
John S. Gairdner
J. Howard Hawke
W. Bernard Herman, Q.C.
Gerald S. Horgan, Q.C.
Ben Sadowski, M.B.E.
Lawrence Shankman
Louis Stulberg
Noel Zeldin

Officers

John D. Fienberg	*Chairman of the Board*
Noel Zeldin	*Vice-Chairman of the Board*
Lawrence Shankman	*President*
Louis Stulberg	*Vice-President and Secretary-Treasurer*
Vernon Howe, B.Comm., C.A.	*Vice-President, Finance*
James McFarlane	*Vice-President, Construction*
Somer Rumm	*Vice-President, Land Development*

Auditors

Clarkson, Gordon & Co., Toronto
Chartered Accountants

Transfer Agent and Registrar

Guaranty Trust Company of Canada
Toronto, Montreal, Winnipeg, Vancouver

To the shareholders:

I am pleased to report that your Company has made satisfactory progress in the year ended February 28, 1967.

The financial position has improved considerably. Our bank indebtedness has been reduced from $5,125,000 at February 28, 1966 to $3,023,547 at February 28, 1967. Further reductions have been made since the fiscal year end. We have reduced accounts payable from $3,713,262 to $2,073,279. The Company has purchased for cancellation $200,000 6¼% sinking fund debentures. Other long term debt has been reduced by $1,450,000. We feel that these improvements in the financial position have established a sound base for future operations.

There were a number of influences which restricted the activities of the Company during the year. The Company's decision to consolidate its activities to the general area of Metropolitan Toronto and fringe municipalities, restricted financing and the lack of mortgage funds contributed to the limitation of volume. However, it is pleasing to note that on approximately the same volume as last year the Company has converted a loss into a small profit of $59,269. The cash profit, consisting of the net profit, depreciation and amortization of financing costs, amounted to $495,279. It is significant that the consolidation of operations and other economies accounted for a reduction in general, selling and administrative expenses from over $2,000,000 in the previous year to $997,000 for the year ended February 28, 1967.

The improvement in operations has been made through the implementation of a controlled program which depended for its success on each member of

Lawrence Shankman, *President*

the management team. I would like to review the activities of this management team and their respective Divisions.

Construction Division

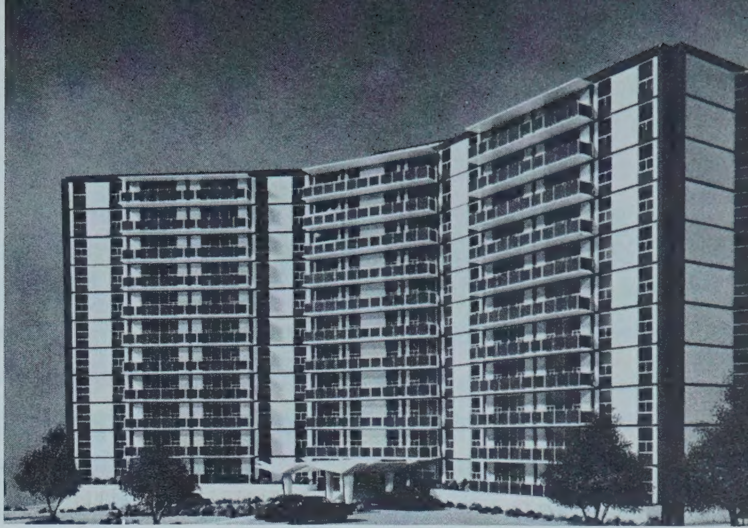
Mr. James McFarlane, our Vice-President of Construction, came to Consolidated Building Corporation three years ago after many years' service in a senior capacity with Central Mortgage and Housing Corporation. Previously he had been active in the construction industry in Britain. Mr. McFarlane supervises all phases of construction, including designing, engineering, purchasing and building.

We have now established a system of costing which enables us to carry out a program geared to strict cost controls, thereby eliminating many variables and enabling us to sell at prices that assure a reasonable profit on each unit sold.

During the past year, new housing starts were confined to Metropolitan Toronto. Our sales totalled 378 units, which included 184 units under con-

struction at the beginning of the year and 194 new starts during the year. We had hoped to build more houses in Toronto last year but unfortunately the inadequacy of mortgage funds hampered this program.

The mortgage picture for the current year appears much brighter. We plan to commence housing projects on lots in Pickering Township, Toronto Township, Brampton, Oakville and Malton.



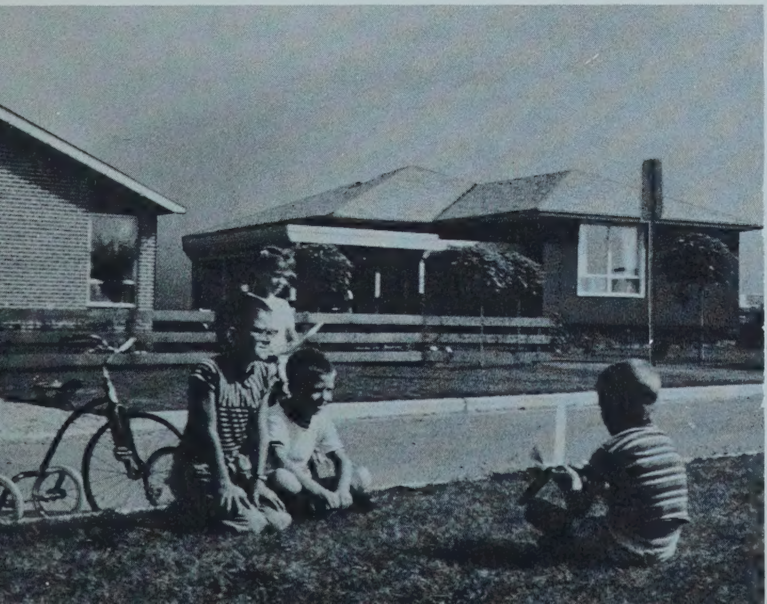
Royal Hill Apartments

Investment and Industrial Division

The management of our investment properties is an important aspect of our business. Mr. Louis Stulberg, who is a founding director of the Company and has 29 years' experience in the construction industry, has been in charge of this Division of the Company for the past seven years.

During the year, we concluded the profitable sale of a half interest in the 231-suite Royal Hill apartments, in our Don Valley Village development. Income was derived from investment properties which include apartments, commercial buildings, shopping centres and the Regency Towers Hotel. The Company's equity in these properties has increased through mortgage principal payments and their market values are continuing to appreciate. The Regency Towers Hotel showed improved operating results during the year. We feel confident that this business will continue to grow.

Bay Ridges Community



The Investment Division was successful in acquiring, subsequent to our year-end, a substantial development in Scarborough of 315,000 square feet of existing industrial building and 180,000 square feet of uncompleted building. The finished building is presently substantially leased to major tenants and leasing of the remainder is proceeding favourably.

We propose to expand the operations of this particular department in the coming year. We also plan to construct an additional 350 apartment suites on land that the Company now holds for development.

Land Development Division

This Division is managed by Mr. Somer Rumm, a founding member of the Company. His long experience in construction and market research is invaluable in selecting land on which houses can be sold

to the public. During the past year, land for development and construction was acquired in Toronto Township, Brampton and Scarborough. We have also reactivated plans for our land holdings in Aurora for a proposed housing and commercial development. The Land Development Division is engaged in the development and sale to other builders of land not required for the Company's future operations. We plan to expand our activities as land wholesalers.

The consolidated balance sheet lists our real estate held for development and sale at $2,725,597. Present market conditions indicate to us that the value of these properties have appreciated and we would expect to earn attractive profits on these assets from their sale.

We were successful in our bid to the Town of Oakville for a redevelopment proposal on 120 acres of land which will provide approximately 735 new housing units. Subject to confirmation by the Ontario Municipal Board, we would propose to start construction in the fall of this year. This plan whereby local government and private enterprise combine their talents to produce much needed low cost housing, could be the forerunner of similar ventures to follow in the near future.

Administration and Finance

During the year, Mr. Vernon Howe, B.Comm., C.A., was appointed to the position of Vice-President, Finance. Mr. Howe has a thorough background of experience in the accounting and financial management field, having been associated with Clarkson, Gordon & Co. for twelve years and with industry for five years. Our present financial position testifies to the contribution Mr. Howe is making to our management team.

During the past year, the Federal and Provincial taxation authorities reviewed revised tax returns for the years 1961 to 1965 inclusive. It is now estimated that the Company has a tax loss carry forward of approximately $3,000,000 which can be applied against future profits.

Joint Ventures

The Don Valley Shopping Mall, in which we own a 50% interest, is now complete and almost fully rented.

Industrial building, Scarborough

Left to right: Somer Rumm, Louis Stulberg, James McFarlane, Vernon Howe.

The land development project in London, Ontario, in which we own a 50% interest is now being registered and lots are being offered for sale to local builders.

The 34-storey apartment building on the Hudson River overlooking New York City is now nearing completion and is ready for rental. It would now appear that our 5% interest in this development company (carried at no value in the Company's accounts) will have some tangible value.

We have a 50% interest in a development of approximately 20 acres in Scarborough for a redevelopment program to consist of approximately 1,600 apartments. We are negotiating with the municipal officials and would hope to have this ready for construction in the late Fall.

Outlook

The lag we have been experiencing in home building is creating a backlog of housing demand which should result in some upturn in the immediate future.

The new government policy of making available more mortgage funds through its own resources and through the Bank Act should result in a surge in residential construction this year.

We plan to substantially increase our housing starts and to increase activity in apartment and industrial construction. The easing of financing restrictions should enable us to expand the "wholesale" aspect of our land development division.

In general, I am pleased with the results which have been achieved in the past year and feel that through the consolidation of our operations we have established a firm foundation on which to provide profitable operations for the future.

On behalf of the Board of Directors, we wish to express our deep appreciation to all employees for their continued efforts and to our shareholders for their loyalty and support.

Respectfully submitted,

LAWRENCE SHANKMAN

President

July 4, 1967

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CONSOLIDATE

February

ASSETS

Current Assets		
Cash		$ 120,966
Receivables		7,142,686
Deposits on land		150,942
Houses completed and under construction including land at cost less mortgage advances received thereon (Note 2)		1,569,018
Real estate held for development and sale at the lower of cost and estimated realizable value (Note 2)		2,725,597
Prepaid expenses and sundry assets		304,346
Total current assets (Note 9)		12,013,555
Mortgages receivable		1,008,525
Sundry investments and advances (Note 1)		130,675
Investment properties — at cost (Note 3)		
Buildings	11,007,238	
Equipment	799,576	
Leasehold improvements	373,694	
Parking lot	274,344	
	12,454,852	
Less accumulated depreciation and amortization	1,325,189	
	11,129,663	
Land	1,637,054	12,766,717
Excess of cost over book value of investment in subsidiaries at date of acquisition		112,950
Unamortized financing costs		521,508
		$26,553,930

On behalf of the Board:

J. D. Fienberg, *Director*

L. Shankman, *Director*

See accompanying n

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companies)

ALANCE SHEET

67 (Note 11)

LIABILITIES

Current Liabilities		
Due to bankers (Note 4)		$ 3,023,547
Accounts payable and accrued liabilities		2,073,279
Tenants' and other deposits		177,469
Mortgages and secured payables		2,826,474
6½ % General mortgage bonds due December 1, 1967 (Note 5)		1,474,000
Other long term debt due within one year (Note 5)		670,437
Total current liabilities (Note 9)		10,245,206
Advances from shareholders due September 10, 1968		143,824
Mortgages payable on investment properties (Note 5)	9,756,526	
Less due within one year	470,437	9,286,089
6¼ % sinking fund debentures due Feb. 1, 1979 (Note 5)	4,800,000	
Less sinking fund payments due within one year	200,000	4,600,000
Total liabilities		24,275,119

SHAREHOLDERS' EQUITY

Capital stock (Note 6)			
Authorized	*Issued*		
988,100	288,100	First preference shares with a par value of $10 each — issuable in series — 6% cumulative redeemable preference shares, Series A	2,881,000
6,000,000	3,669,126	Common shares without par value	2,317,589
Deficit			(2,919,778)
			2,278,811
			$26,553,930

to financial statements.

consolidated building corporation limited

CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT

For the Year Ended February 28, 1967 (Note 11)

Revenue:	
Sales of real estate (Note 10)	$14,353,574
Gross income from investment properties	2,860,800
Interest and sundry income	734,677
Excess of par value over price of debentures purchased (Note 5)	73,600
	18,022,651
Expenditures:	
Cost of real estate sold (Note 10)	13,151,974
Operating expenses of investment properties (excluding interest and depreciation)	1,952,964
Selling, general and administrative expenses	997,183
Interest expense (Note 12)	1,425,251
Depreciation and amortization of leasehold improvements	356,359
Amortization of financing costs	79,651
	17,963,382
Earnings for the year (Note 8)	59,269
Deficit (including $20,000 contributed surplus) March 1, 1966	2,935,832
	2,876,563
Dividends on preference shares (Note 6)	43,215
Deficit, February 28, 1967	$ 2,919,778

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 1967

1. *Principles of consolidation*

The accounts of all subsidiary companies have been included in the consolidation. The Company's investment in four joint ventures is carried at the value of its equity therein in the item "Sundry investments and advances" in the accompanying balance sheet.

2. *Real estate held for development and sale and houses completed and under construction.*

These include the cost of land, land improvements, building construction and establishment costs and all carrying charges less $993,300 of mortgage advances received with respect to house construction inventories. The Company's accounting procedures relating to land and house construction inventories provide for the immediate write-off of any costs which are not recoverable from the profits on future sales. Accordingly, the carrying value of these inventories is less than estimated realizable values.

3. *Investment properties*

The Company constructs and operates properties of an investment nature, some of which may be sold from time to time when, in the judgment of the Board of Directors, such sales are in the Company's best interest. These properties are carried at cost including mortgage interest, property taxes, legal fees and certain overhead expenses capitalized during the construction and initial leasing periods.

4. *Bank indebtedness*

The Company and a subsidiary have issued and deposited with their bankers as collateral security, demand debentures in respect to the bank loans and letters of credit outstanding. These debentures are secured by a first floating charge on the assets of the Company and carry interest at the rate of 6% per annum. In addition, there is a general assignment of accounts receivable and certain mortgage receivables have been assigned to the bankers.

5. *Funded debt*

Mortgages payable on investment properties include principal repayments due over the next five years as follows:

Year ending February 29, 1968	$ 470,000
Year ending February 28, 1969	1,013,000
Year ending February 28, 1970	294,000
Year ending February 28, 1971	1,466,000
Year ending February 29, 1972	227,000

6½% General Mortgage Bonds —

The 6½% general mortgage bonds were issued by Don Valley Village Limited, a wholly-owned subsidiary, pursuant to a trust deed which provides for the establishment of a sinking fund to retire the general mortgage bonds and also for certain restrictions on the payment of dividends by the subsidiary. The Company has unconditionally guaranteed these bonds. The sinking fund requirements in respect of the year ended February 28, 1967, have been met. The total of $1,474,000 of mortgage bonds due December 1, 1967, will be paid out of the collections of receivables held by the Company.

6¼% Sinking Fund Debentures, Series A —

The 6¼% sinking fund debentures Series A, are unsecured and were issued by the Company pursuant to a trust indenture dated January 15, 1964, which provides that the Company is to establish a sinking fund for the retirement on February 1 in each of the years 1968 to 1970 inclusive of $200,000, increasing to $400,000 on February 1 in each of the years 1971 to 1975 inclusive, and to $700,000 in each of the years 1976 to 1978. $200,000 principal

amount of debentures was purchased for cancellation prior to February 1, 1967.

The trust indenture also provides that dividends on common shares may only be paid from the total of the consolidated net earnings subsequent to August 31, 1963, plus the net cash proceeds to the Company of the issue, after August 31, 1963, of any of its shares. The total of consolidated net earnings subsequent to February 28, 1967, and net cash proceeds from the issue of shares after that date must amount to approximately $7,000,000 before dividends may be paid on common shares.

The trust indenture provisions do not apply to prevent the payment of dividends on the 6% cumulative redeemable preference shares, Series A.

6. *Capital stock*

Common shares:

Share purchase warrants are outstanding which entitle the bearer to purchase common shares of the Company at any time up to and including June 30, 1969, at a price of $12 for three common shares to June 30, 1967, increasing by $1 per three shares every year thereafter until June 30, 1969, at which time the share purchase warrants expire. No shares were issued during the year. At February 28, 1967, 305,874 of the authorized and unissued common shares were reserved for possible issue on exercise of the rights attached to the outstanding share purchase warrants.

Series A First Preference Shares:

Under certain conditions attaching to the first preference shares, the Company is required to set aside the amount of $150,000 annually with an overall limitation of $300,000 at any one time as a purchase fund for the purchase and cancellation of the preferred shares. The amount set aside is to be applied as soon as practicable to the purchase of the Series A preference shares in the market, subject to certain price limitations. Subsequent to May, 1963, the Company has not complied with this condition.

As at March 1, 1967, preferred share dividends on preference shares were in arrears to the extent of three quarterly payments or $129,645. No dividends may be paid on common shares while preferred share dividends are in arrears.

At such time as dividends on the preference shares are in arrears to the extent of six or more quarterly payments, the holders of the preference shares shall be entitled to one vote in respect of each preference share held and in addition, voting separately and exclusively as a class, to elect three members of the Board of Directors of the Company if the Board consists of more than seven directors.

7. *Commitments and contingent liabilities*

The Company has two long-term leases in effect for its premises under which approximate annual rentals of $333,000 are payable, exclusive of real estate taxes, insurance, maintenance and repairs. Rental income from these premises subleased to others is estimated at $400,000 for the year ending February 29, 1968. Each lease contains an option to purchase the leased premises.

The Company has lodged letters of credit aggregating $324,000 with municipalities as security for the fulfillment of its obligations under certain subdivision agreements.

The Company is jointly and severally liable on a mortgage on the Don Valley Shopping Centre in the amount of $706,000, which is payable by a joint venture in which the Company has a 50% interest.

Subsequent to February 28, 1967, the Company purchased a 25 acre industrial site, including a completed building of 315,000 square feet and a partially completed building of 180,000 square feet. The purchase price was $2,155,000, financed principally by mortgages on the property in the amount of $1,835,000. The balance of the purchase price was financed by an additional mortgage on another property owned by the Company.

The Company has entered into an agreement with the Town of Oakville to service and build houses on 735 lots in the Municipality. The selling prices of

these houses has been fixed, subject to adjustments if construction costs increase above present levels in the industry. If this agreement is ratified by the Ontario Municipal Board, the Company will be required to purchase the land for $840,000 and to service it for an estimated cost of $1,500,000.

The Company is a party to an action with respect to certain building lots in the Province of Quebec which if unsuccessful could result in a loss to the Company of approximately $200,000. No provision has been made in the accounts for this possible loss as, in the opinion of management, the Company has a valid claim.

The Company is involved in a land assembly project in Metropolitan Toronto on which the total purchase and development costs are estimated to be $1,400,000. At February 28, 1967, the Company had advanced $23,000 towards the acquisition of land in connection with this project. It is intended that this will be developed under joint venture arrangements.

8. *Income taxes*

During the year the Company filed revised income tax returns in respect of its 1962 to 1965 taxation years to apportion to these years the special charges and prior year's adjustments recognized in the accounts at February 28, 1966. All adjustments to the Company's tax position arising from a review of these returns by the Federal and Provincial taxation authorities during the year have been reflected in the accounts. Taxes otherwise payable in respect of the year's profits have been eliminated by application of losses from prior years.

It is the Company's practice to claim maximum capital cost allowances for tax purposes which are in excess of recorded depreciation and to claim in the year incurred, interest and other carrying charges which are capitalized in the accounts. In addition, the Company has deferred certain real estate profits within the limits permitted by the taxation legislation. At February 28, 1967 the total of such excess capital cost allowances, interest and other costs and deferred real estate profits result in a loss carry-forward for tax purposes estimated at approximately $3,000,000.

9. *Current assets and liabilities*

All real estate held is available for current sale or development and accordingly the carrying value of these assets has been included in current assets. The mortgages payable thereon, some of which have a two year term or longer, have been included in current liabilities. Receivables which include balances due within a two-year period on land sales have also been classified as current assets in the accompanying balance sheet.

10. *Sales of real estate*

In 1966 and prior years the Company followed the practice of recording revenues and costs applicable to real estate sold at the time of receipt and acceptance of an approved offer and at the same time deferred the gross profit on such sales as unrealized income until the transaction had been completed.

Effective March 1, 1966, the Company discontinued using this unrealized income approach and now records the applicable revenues and costs with respect to real estate sold at the time the transactions are completed. This change had no effect on income for the 1967 fiscal year.

11. *Comparative figures*

Significant changes were made in the format of the accompanying financial statements and also in the basis of recording sales of real estate (Note 10). It was not practicable to restate the previous year's figures to conform to the new classifications, and accordingly, comparative figures have not been shown.

12. *Statutory information*

Directors' fees amounted to $18,000 for the year ended February 28, 1967. Interest on debt initially incurred for a term of more than one year totalled $1,111,000 in the year.

Clarkson, Gordon & Co.
Chartered Accountants
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Halifax Saint John Quebec Montreal Ottawa
Toronto Hamilton Kitchener London Windsor
Winnipeg Regina Calgary Edmonton Vancouver
Arthur Young, Clarkson, Gordon & Co.
United States—Brazil
Telephone 368-2751 (Area Code 416)

AUDITORS' REPORT

To the Shareholders of
Consolidated Building Corporation Limited:

We have examined the consolidated balance sheet of Consolidated Building Corporation Limited and subsidiary companies as at February 28, 1967 and the consolidated statement of earnings and deficit for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned financial statements present fairly the financial position of the companies as at February 28, 1967 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied, except for the change in accounting practice described in note 10 to the financial statements, on a basis consistent with that of the preceding year.

Toronto, Canada,
June 28, 1967.

Clarkson, Gordon & Co.
Chartered Accountants